

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2010

**South Placer Municipal Utility District
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2010**

This section of the South Placer Municipal Utility District (SPMUD or District) annual financial report presents management's analysis of the District's financial performance for fiscal year ending June 30, 2010 (FY 09/10). This report should be reviewed in conjunction with the audited financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 09/10

SPMUD provides sewer service to an equivalent population of 74,750 (based on 29,900 EDU x 2.5 people / EDU); coming from the City of Rocklin, Town of Loomis, and some of the surrounding unincorporated areas in southern Placer County located within the District's boundaries.

Significant changes in the District from the 2008/09 Fiscal Year (FY08/09) are summarized in Table 1 below:

TABLE 1: DISTRICT CHANGES

DESCRIPTION	UNITS	FISCAL YEAR		CHANGE	
		2008-09	2009-10	AMT	%
EDU	EACH	29,556	29,895	339	+1.1%
ACCOUNTS	EACH	19,868	20,047	179	+0.9%
MAIN PIPELINE	MILES	244.7	246.1	1.4	+0.6%
SERVICE FEE/ EDU	MONTHLY	\$ 20.50	\$ 22.00	\$ 1.50	+7.3%
NET ASSETS	MILLION	\$ 92.34	\$91.73	\$1.54	+1.7%
TOTAL REVENUES	MILLION	\$ 10.36	\$ 9.58	-\$ 0.78	-7.5%
TOTAL EXPENSES	MILLION	\$ 9.11	\$ 10.51	\$ 1.40	+15.3%

OVERVIEW OF THE FINANCIAL STATEMENTS

The South Placer Municipal Utility District's annual Audit Report is comprised of three components: this Management Discussion and Analysis (MDA), the basic financial statements, and required / other supplementary information. The MDA purpose is to provide a fact-based summary of the District's financial status from management's perspective. The basic financial statements must include a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows, and includes Notes to the financial statements for additional details. The other supplementary documents explain items in detail and provide additional information. This Report will provide an indication of how well SPMUD is doing financially.

FINANCIAL ANALYSIS OF THE DISTRICT

ASSETS AND LIABILITIES

My analysis of our Financial Statements for Assets and Liabilities (page 8 of the audit) is summarized in Table 2 and narrative below.

TABLE 2- ASSETS AND LIABILITIES (IN \$ MILLION)

ITEM	FY09/10	FY08/09	CHANGE
CURRENT ASSETS	\$ 43.78	\$ 42.88	2.10%
NON-CURRENT ASSETS	\$ 49.69	\$ 50.20	-0.20%
TOTAL LIABILITIES	\$ (2.15)	\$ (0.74)	190%
TOT. NET ASSETS	\$ 91.73	\$ 92.34	-0.66%
TOT. ASSETS	\$ 93.88	\$ 93.08	0.86%

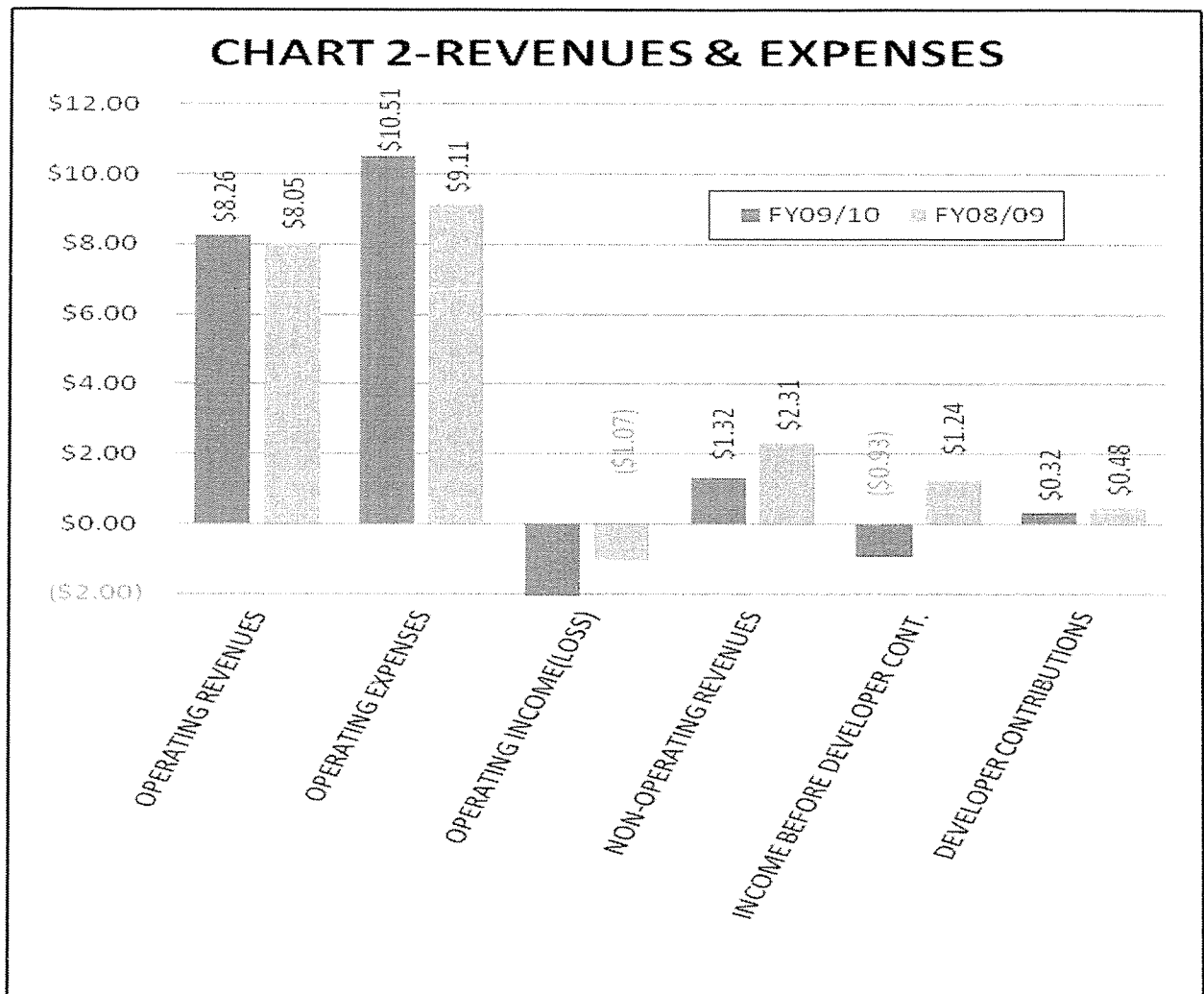
SPMUD Total Liabilities and Net Assets increased by \$0.8 million (M) or (0.86%) over last year from \$93.08M to \$93.88M; with our cash assets increasing by \$0.9M (2.1%). This was due to an increase in service fees. The District added 1.4 miles of new sewer main and other depreciable items to our system for a total capital value of \$50.1M, net of accumulated depreciation and is reflected in our non-current assets. The total liabilities and net assets have increased by \$798,000, which is an increase of a little less than one percent over last year.

REVENUES AND EXPENSES

My analysis of our Financial Statements for Revenues and Expenses as compared to the previous year is summarized in Table3 with CHART 2 showing TABLE 3 in graphic form.

TABLE 3: REVENUES AND EXPENSES (IN MILLION \$)

ITEM	FY09/10	FY08/09	CHANGE
OPERATING REVENUES	\$8.26	\$8.05	2.60%
OPERATING EXPENSES	\$10.51	\$9.11	15.4%
OPERATING INCOME(LOSS)	(\$2.25)	(\$1.07)	-110%
NON-OPERATING REVENUES	\$1.32	\$2.31	-42.9%
INCOME BEFORE DEVELOPER CONT.	(\$0.93)	\$1.24	-175%
DEVELOPER CONTRIBUTIONS	\$0.32	\$0.48	-33.3%
NET ASSETS	\$91.73	\$92.34	-0.70%



The District's total operating revenues from customers increased by about \$576,000 over last year or 7.9 percent; due to the increase in the number of EDU's and the monthly service charge. However, our operating expenses increased by \$1.39M (15%) due to the Regional Waste Water Treatment Plant (RWWTP) O&M cost (which is over 60% of our annual O&M expenses). The \$2.25M shortfall between operating revenues and expenses is partially made-up for by the \$1.32M in non-operating revenue (mainly interest income and property taxes). Our revenues from interest income decreased by \$406,700 (38%) and our taxes decreased by \$63,000 (8.8%); this is the first year where our annual operating shortfall was not covered by these non-operating revenues.

In accordance with our five-year financing plan, our monthly service charge for FY 09/10 increased by \$1.50 (\$20.50 to \$22.00) per EDU, and our connection fee increased by \$362 (\$8,247 to \$8,609) per EDU. Our connection fees revenues decreased by over \$319,000 (46%), going from \$0.696M to \$0.377M. The Capital Contributions (developer constructed infrastructure) decreased by 32% (-\$153,000), going from \$0.48M to \$0.32M. These contributions added 1.4 miles of sewer main pipe, 179 new connections, and other sewer system appurtenances. This is far below our past ten year average of around 1000 EDUs/year.

BUDGETARY HIGHLIGHTS

I compared our FY09/10 budget values with our actual revenues and expenses for the same period that were used to develop the FY10/11 budget; these amounts include funds transferred between the operating and capital accounts.

TABLE 4- FY 09/10 BUDGET ANALYSIS (million \$)

OPERATING FUND	ACTUAL	BUDGET	CHANGE	VARIANCE
REVENUES	\$ 9.312	\$ 9.355	\$ -0.043	-0.46%
EXPENSES	\$ 10.002	\$ 9.087	\$ 0.915	10.0%
CAPITAL FUND				
REVENUES	\$ 3.227	\$ 3.715	\$ -0.488	-13.1%
EXPENSES	\$ 3.121	\$ 3.278	\$ -0.157	-4.8%

Table 4 shows that our actual General Fund revenues are a ½ percent lower than the budget estimates; our expenses were 10% higher because the actual treatment costs were higher than our estimates.

CAPITAL ASSET ACTIVITY

The Capital Fund revenues were 13% below our budgeted amount because we over estimated the number of new connections to the system. Our actual capital expenses were \$157,000 less than the budget amounts or 4.8% because certain projects were deferred. The largest projects in the capital fund were the RWWTP Rehabilitation (\$1.4M) and various Sewer System repair projects (\$0.75M). The remaining capital outlay activity was for office and field equipment replacement and repair of existing District facilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

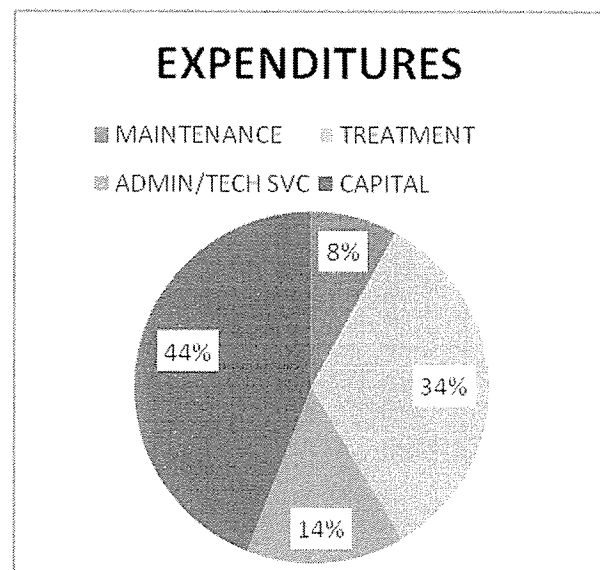
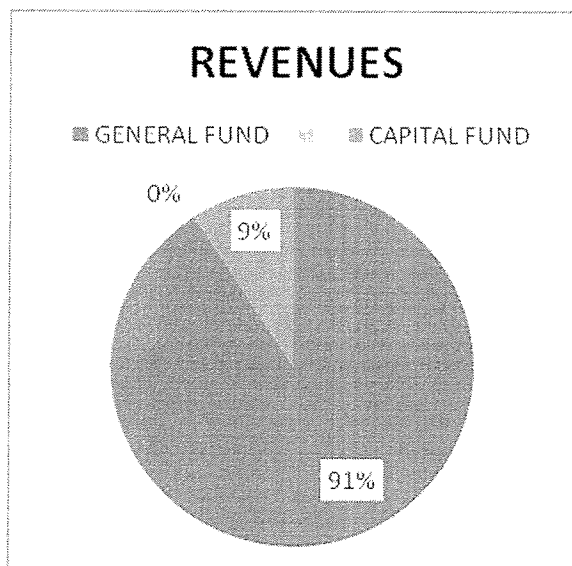
Our FY10/11 General Fund Budget is 5.4% greater than for FY09/10, mainly due to the increase in RWWTP O&M cost charged by the City of Roseville (the cost of wastewater treatment is expected to increase by 5%). We have programmed \$7.8M in capital outlays in FY09/10, not including fund transfers. Our total unrestricted net assets are projected to decrease \$5.56 million (\$41.91M - \$36.41M) by the end of the fiscal year due to the funding of the Newcastle Sanitary District (NSD) Project (Project). The District continues its efforts to annex the NSD into SPMUD with construction of the Project beginning this year; which will add about 300 EDU's to the district. Agreements are in place for the current NSD customers to repay the \$5.59M loan for the Project.

SPMUD has 23 full-time and 5 part-time/temporary employees, and we will not be adding any new employees during the 2010/11 fiscal year. The District growth is expected to continue to slow over the next few years and there is a possibility that the State will "take away" some more of our property tax share to balance the state budget. No employees received any cost-of-living-allowance (COLA) salary increases in FY 09/10 or FY 10/11.

Table 5 summarizes our current year (FY 10/11) Budget outlook. Although revenues are much less than expenditures, our five-year financing plan will raise service fees over the next few years for revenues to catch up with expenditures. In the mean time, the District has sufficient unrestricted funds to cover all expenditures. Also, \$5.6M of the Capital expense is the loan for the NSD Project and will be repaid (with interest) to the Capital account over time.

TABLE 5
FY 2010-11 BUDGET REVIEW

REVENUES				
GENERAL FUND		CAPITAL FUND		TOTAL
\$ 9,312,000		\$ 951,500		\$ 10,263,500
EXPENDITURES				
MAINTENANCE	TREATMENT	ADMIN/TECH SVC	CAPITAL	TOTAL
\$ 1,390,500	\$ 5,950,000	\$ 2,552,700	\$ 7,797,100	\$ 17,690,300
PROJECTED CASH FY10/11 YEAR-END BALANCES				
GENERAL		CAPITAL		TOTAL
\$ 5,887,200		\$ 30,460,400		\$ 36,347,600



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This Financial Report is designed to provide the District's customers and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability. Questions about this report should be addressed to the General Manager, in writing to: SPMUD, 5807 Springview Drive, Rocklin, CA 95677, or by telephone at (916) 786-8555, or e-mail at cclark@spmud.ca.gov.

South Placer Municipal Utility District
Statement of Net Assets
June 30, 2010

Assets

Current Assets	
Cash and investments	\$ 41,375,660
Accounts receivable	2,271,047
Prop 1A receivable	55,812
Interest receivable	15,285
Prepaid expense	64,088
Total current assets	<u>43,781,892</u>
Noncurrent Assets	
Loan Receivable	<u>410,000</u>
Capital assets	
Nondepreciable capital assets	
Land	<u>435,860</u>
Depreciable capital assets	
Buildings	2,881,187
Sewer system	57,317,082
Equipment	658,192
Office furniture and equipment	198,126
Vehicles	1,232,785
Less accumulated depreciation	<u>(13,033,383)</u>
Total depreciable capital assets	<u>49,253,989</u>
Total capital assets (net of accumulated depreciation)	<u>49,689,849</u>
Total noncurrent assets	<u>50,099,849</u>
Total assets	<u><u>\$ 93,881,741</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 1,824,008
Accrued payroll	74,684
Customer deposits	2,307
Total current liabilities	<u>1,900,999</u>
Long-Term Liabilities	
Due within one year	66,413
Due in more than one year	180,166
Total long-term liabilities	<u>246,579</u>
Total liabilities	<u>2,147,578</u>
Net Assets	
Invested in capital assets net of related debt	49,689,849
Unrestricted	42,044,314
Total net assets	<u>91,734,163</u>
Total liabilities and net assets	<u><u>\$ 93,881,741</u></u>

The accompanying notes are an integral part of these financial statements

South Placer Municipal Utility District
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Operating revenue	
Sewer service charges	\$ 7,827,078
Connection fees	376,895
Permits, plan check fees and inspections	<u>53,592</u>
Total operating revenues	<u>8,257,565</u>
Operating expenses	
Collection and treatment	7,811,646
Administration and general	978,741
Technical services	657,671
Depreciation	<u>1,059,168</u>
Total operating expenses	<u>10,507,226</u>
Operating income (loss)	<u>(2,249,661)</u>
Nonoperating revenue (expenses)	
Property taxes	655,680
Interest income	653,106
Other revenues	<u>9,523</u>
Nonoperating revenues (expenses)	<u>1,318,309</u>
Net income before capital contributions	(931,352)
Capital contributions	<u>324,280</u>
Increase (Decrease) in net assets	(607,072)
Net assets, July 1	92,339,286
Prior period adjustment	<u>1,949</u>
Net assets, June 30	<u><u>\$ 91,734,163</u></u>

The accompanying notes are an integral part of these financial statements

South Placer Municipal Utility District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

	<u>Total</u>
Cash flows from operating activities:	
Cash receipts from customers and users	\$ 8,122,911
Cash payments to suppliers for goods and services	(5,427,757)
Cash payments to employees for services	<u>(2,600,690)</u>
Net cash provided by (used in) operating activities	<u>94,465</u>
Cash flows from noncapital financing activities:	
Property taxes received	655,680
Other non operating revenue received	9,523
Operating transfers in	2,516,684
Operating transfers out	<u>(2,516,684)</u>
Net cash provided by (used in) noncapital financing activities	<u>608,819</u>
Cash flows from capital and related financing activities:	
Additions to capital assets	<u>(574,622)</u>
Net cash provided by (used in) capital financing activities	<u>(574,622)</u>
Cash flows from investing activities:	
Interest received on investments	<u>729,495</u>
Net decrease in cash and cash equivalents	858,157
Cash and cash equivalents, beginning of year	40,517,503
Cash and cash equivalents, end of year	<u><u>\$ 41,375,660</u></u>
Reconciliation of cash and cash equivalents to the balance sheet:	
Cash and cash equivalents, June 30	<u><u>\$ 41,375,660</u></u>
Reconciliation of operating income (loss) to	
net cash provided by operating activities	
Operating Income (Loss)	\$ (2,249,661)
Adjustments to reconcile operating income (loss) to	
net cash provided by operating activities:	
Depreciation	1,059,168
Changes in assets and liabilities:	
Accounts receivable	(81,149)
Prop IA Receivable	(55,812)
Prepaid expenses	(4,898)
Accounts payables	1,396,550
Accrued payroll	10,516
Deposits	923
Compensated absences	<u>18,827</u>
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ 94,465</u></u>

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